Message

From:	Matthew Stepka ██████@google.com]
Sent:	4/24/2009 5:47:04 PM
To:	Eric Chu [████@google.com]; David Conway ████@google.com]
CC:	Hanwook Kim [████@google.com]
Subject:	Fwd: Android Marketplace Payments - UPDATE

FYI, andy gave us some strong feedback on the draft email (see below). we will work on incorporating his feedback and hope to get his buy-in by early next week before sending to susan. cheers, matthew.

--
Matthew Stepka | Director, Business and Operations Strategy | **Google**
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---------- Forwarded message ----------
From: **Matthew Stepka** <████@google.com>
Date: Fri, Apr 24, 2009 at 10:08 AM
Subject: Re: Android Marketplace Payments - UPDATE
To: Andy Rubin <████@google.com>
Cc: Hanwook Kim <████@google.com>, Francoise Brougher ████@google.com>

andy,

sorry if we're missing expectations. thanks for the feedback, we'll make sure to include you points. we have been working with your team to put together the best (for android) solution. this is why we PP is being used as a FOP, but not a payment mechanism to developers.

will send you another version shortly. will definitely get your buy-in before sending out.

cheers,
matthew.

--
Matthew Stepka | Director, Business and Operations Strategy | **Google**
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On Fri, Apr 24, 2009 at 8:47 AM, Andy Rubin ████@google.com> wrote:
Matthew,

EXHIBIT 308

I'm disappointed that the Android strategy wasn't clearly articulated. The whole point of having your team work in a consulting role is so that I don't have to single handedly provide the obvious strategic insights. Were the observations of the Android team really included below? Seems heavily biased towards not doing a paypal deal and defensive of checkout. Here are the points I'd like addressed before forwarding:

- Android needs to build a neutral payment system that covers every geography we operate in. We are building a completely new 3rd party developer ecosystem and if we have an incomplete payment solution then competing marketplaces will spring up in various geographies and fragment our story for developers. The unifying power of Android is that it can run across OEM, on many carrier networks and give the 3rd party developers a single distribution channel. PRO: Paypal has over 180M existing customers and supports 37 geogs.

- Checkout doesn't have a solution for micropayments. As you know it only accepts credit cards and there is a transfer cost per transaction. This makes the average transaction price much more as a percentage of total sale. You did not include these numbers in Checkout's "costs". We estimate it to cost 17-20% on average. Paypal supports both credit card, ACH direct debit and "bill me later". They arbitrage the costs across these payment mechanisms and arrive at a much lower cost. PRO: Paypal offers a micropayment engine and prices are dramatically lower.

- Two very important markets for us are China and Japan. This is where the volume of our business will be. Checkout does not support these markets -- so I disagree with the 80% figure, and more importantly, consumers don't have credit cards in these two important regions so checkout is not even a viable solution. PRO: Paypal supports Japan and will support China via a subsidiary in 2H 2009

- We need to integrate with operator billing no matter what. Users will have an option of using carrier billing or checkout, and we merely want to give users access to paypal as a billing option. This should not be looked at as a competitor to checkout -- otherwise carrier billing should be considered the same. PRO: Since we will integrate carrier billing as an API that third parties can plug into, including aggregators, specifically excluding paypal is an anti-trust risk.

- Arguments regarding moneta integration work are irrelevant because this work needs to be done anyway for carrier billing. (remove from CONS)

- "Creates doubt in the marketplace" is irrelevant because will will by default be using carrier billing as an option, and will be supporting aggregators in the process. Alternative payment options are a REQUIREMENT. (Remove from CONS)

- It is the android teams strong feeling that checkout needs to stand on it's own as a competitive product and we will not risk the viability of our developer ecosystem (which directly impacts the success and adoption of Android) by restricting 3rd party payment systems.

Please address these points in your email and send me a draft to review before sending. It's important to get my buy-in on this as I own the strategy.

 - andy

On Fri, Apr 24, 2009 at 1:55 AM, Matthew Stepka <████████@google.com> wrote:
No problem. Let me know if there are specific areas you want us to flesh out. Susan has been asking for an update as soon as possible, and PP needs to know by end of the month that we are committed to go foward with the FOP.

Cheers, Matthew.

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Matthew Stepka | Director, Business and Operations Strategy | **Google**

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communication by mistake, please do not forward it to anyone else,
erase all copies and attachments, and let me know that it went to the
wrong person. Please consider the environment before printing this e-mail.

On Fri, Apr 24, 2009 at 1:49 AM, Andy Rubin ███████@google.com> wrote:

This needs some work. The strategy isn't adequately communicated. Please hold off sending until I've had a chance to edit.

On Apr 24, 2009 5:44 PM, "Matthew Stepka" <███████@google.com> wrote:

Andy,

Below is a draft of the email we plan to send to Sergey, Susan and Jeff by EOD tomorrow. We have solicited input from your team and the CO team. Let me know if you have any feedback.

Cheers,
Matthew.

Hi Sergey, Susan and Jeff,

We have reviewed the Android market payment strategy. Android and Checkout have an agreed upon prioritized plan that will provide 80% (i.e. largest markets) of what Android needs in 2009. Android would also like to add PayPal as a FOP only (Developer paid by Checkout/Moneta). By adding PayPal, it has different implications for the Checkout team and for the Android team as well as for Google in general. The Android/Checkout team has listed out a few pros/cons:

Pros:
• Cast a wide net of payment options for Android users
• Potentially capture current PayPal users that overlap with potential and current Android users, thus reducing friction for adoption
• Currently lower costs than Checkout (but dollar amounts are small, e.g. $250/day at current volumes, and Checkout stored value will address this issue)
• Currently provides direct debit and has broader country coverage (for countries that Checkout will not be available)

Cons:
• Undermines Google's position in payments [note: PayPal had revenues of 2.4B in 2008]

EXHIBIT 308-003

- Catalyzing PayPal adoption in other countries, particularly in markets where PP currently has low penetration (e.g. in Germany, PP has less than 20% penetration on eBay.de)
- PayPal is exploring developing a broader developer marketplace
- Switching costs if we ever left PayPal may be potentially high
- Reduces user adoption for Checkout; Android Market Place GMV potentially small, but unknown "life-time" value
- Still requires integration work with Moneta, and would come at the expense of enabling global FOPs for Checkout in the same time frame
- Creates doubt in the marketplace about the viability of Checkout, if Google itself feels the need to go to a competing payment product

Also keep in mind that Android is the first Google property in need of a global diverse payment platform. As we understand, Booksearch and App Engine are also looking for broader reach in which PayPal may enter into the discussion again.

This discussion about adding PayPal brings up a few strategic questions in which the team needs your input/guidance.   The question is are we willing to trade-off potential user benefit of accepting PayPal for Android at a loss for driving users on Checkout?

If you have any questions please let us know, if you would like us to schedule a product review/GPS we're happy to coordinate Android/Checkout teams to present their case.

Thanks,
Matthew

Details:

Current Android Market Place approach:
- Android will continue to use Checkout as the billing and processing platform as Android is rolled out to other countries.
- Checkout will be the dedicated payment system for our Android developers globally
- PayPal will be added as a form of payment (buyers) in countries where either 1) Checkout or features of Checkout (e.g., direct debit) is not available and/or 2) PayPal's current presence will benefit adoption of Android users Is this correct? won't PP have to be available to all Android buyers? -Drubinstein 4/21/09 10:23 AM -- this is a country by country decision - hanwook
- Carrier billing will be added as a form of payment in countries where agreements with mobile operators exists
- Android does not and will not be a reseller of apps -
- Android market place is net profit neutral: Revenue share approach is 70% developers, 20-25% to operator and 5-10% to cover costs -- any transaction costs must be below 5-10%

What this means:

- In 2009, Checkout will provide 80% of the feature required by Android (both feature and country deployment)
- Moneta will prioritize PayPal integration over providing Checkout with German direct debit.
  ○ PayPal has German direct debit capabilities but only has 20% penetration in Germany (e.g. on ebay.de) - by making PayPal the only way to pay with German direct debiton Android, we may catalyze PP growth in Germany
  ○ Android would like to prioritize PayPal to gain benefit of both DD and their presence over making Checkout direct debit ONLY available
- 2010 priorities have not yet been discussed

Challenges:
- Checkout development on legacy systems (vs. waiting for Billing 3.0 in 2010)
- Limited engineering resources on both Checkout and Android; requiring prioritization; Arun - can we insert specific work estimates for Checkout/Moneta support -Drubinstein 4/21/09 11:28 AM
- Providing carrier billing may require different integration from country to country
- Unknown user benefit from adding PayPal
- At current Android average orders of $3, Checkout costs are $0.22 vs Paypal of $0.17 (at current levels of 5000 downloads daily, this translates to an incremental cost of $250/day until Checkout implements stored value). This is a low cost to pay to maintain Checkout's position on Android.
- SHOWSTOPPER: PayPal as a FOP may require Google to become a reseller of applications

Current performance of Checkout and Android Market Place:
- Slow adoption of paid apps (XXK paid apps vs. XXX total over X months); XXX in GMV
- Checkout costs: Too early to tell, but it doesn't appear to be more than expectation
- Since launch, we have had 101,590 unique Android buyers.using Checkout.
  ○ Of these, 82,317 (81%) are new Checkout buyers.
  ○ 3491 (4.24%) of these new buyers have bought from non-Android merchants.

How Android market place payments will work:

- For new users to Android MP
  1. User creates an Android Market Place user account and e-signs the agreement of use
  2. User chooses default payment method (FOP)
  - Checkout - create new account by providing CC or if user has a CO account, automatically transfered from Checkout account
  - PayPal - create new account or provide login ID and password
  - Carrier Billing - provide account number and authetication
  3. Purchase apps (User is not prompted regarding FOP, however user can change anytime in their profile)

EXHIBIT 308-005

-- Matthew Stepka | Director, Business and Operations Strategy | Google ▓▓▓▓▓▓▓▓▓▓

On Tue, Apr 21, 2009 at 3:55 PM, Matthew Stepka <▓▓▓▓▓@google.com> wrote: > > Andy, > > Wanted to ...

EXHIBIT 308-006